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C O N F I D E N T I A L SECTION 01 OF 02 SAO PAULO 000031

SIPDIS

STATE FOR WHA AND PM, PM/DTTC, AND PM/RSAT  
DEFENSE FOR DEPSECDEF, USDP, USD AT&L

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TAGS: [PREL](#) [ETTC](#) [EFIN](#) [MARR](#) [BR](#)

SUBJECT: DELFIM NETTO: PERSPECTIVES ON FX2, FINANCIAL  
CRISIS, BILATERAL RELATIONS

Classified By: Consul General Thomas White; Reasons 1.4 (b) and (d).

[¶1.](#) (C) SUMMARY: On January 12, Ambassador Sobel met with Antonio Delfim Netto. (NOTE: Delfim Netto is a three-time former Minister, former Federal Deputy, and currently an economics professor at the University of Sao Paulo. He writes a newspaper column, which is well read by the political elite, and he is also an informal, personal advisor to President Lula. END NOTE.) Delfim Netto emphasized that a bilateral tax and investment treaty between the United States and Brazil continues to be the most important area for growth between the two countries. He shed light on Brazil's requirements for its upcoming purchase of fighter aircraft. He talked about the future of the Brazilian Central Bank (BCB), and discussed his views on the effect of the financial crisis in Brazil. END SUMMARY.

[¶2.](#) (C) A bilateral tax and investment treaty shows the greatest potential for a growing partnership between the United States and Brazil, according to Delfim Netto. He believes there are many profitable projects in Brazil that U.S. organizations could finance. Delfim Netto told the Ambassador that passage of the treaty would lead to the absorption of between \$35-\$40 billion worth of U.S. capital into the Brazilian economy over the next six years, and that even marginal U.S. investment could solve many of Brazil's liquidity problems.

[¶3.](#) (C) Regarding the FX2 program, he emphasized that technology transfer regulations have been the most significant obstacle to the sale of Boeing's F-18s to the GoB. He believes that the purpose of the Brazilian Air Force's purchase of these planes extends beyond simple defensive capabilities. The GoB wants to build an entire industry around them, for which it needs the technology transfer license. In his view, this is what has allowed France to remain such a strong contender in the field, while hampering Boeing's bid.

[¶4.](#) (C) Delfim Netto commended current BCB President Henrique Meirelles on a job well done, especially vis-a-vis the injection of liquidity into frozen credit markets. He anticipates that Meirelles will ride his success into the political arena by running for governor of the state of Goias

in the middle of this year. Delfim Netto expects the GoB to continue its tradition of respecting the autonomy of the BCB by choosing a qualified and independent candidate. He suggested that Luciano Coutinho, the current President of the Brazilian Development Bank, is the front-runner to replace Meirelles.

¶5. (C) Brazil's relatively higher level of liquidity has helped it weather the financial crisis thus far. Brazil, however, still faces a problem of trusting its workers, companies, and banks to spend money. Delfim Netto fears that these players will continue to save and, while this would help liquidity, it would further diminish growth in the short-term. He predicts that the Brazilian economy will grow between 2.5 and 3 percent next year.

¶6. (C) COMMENT: Brazil has historically emphasized the development of domestic industries and Delfim Netto's analysis is consistent with what both GOB and industry interlocutors are telling the Mission with regard to why France's jet fighter continues to remain a contender, even though it is still in a design phase and technically inferior. With the financial crisis and looming unemployment issues at the front of Lula's agenda, the transfer of technology that will allow boosting production by Brazilian companies in Brazil will almost certainly become even more important to the GoB's final decision on which jet fighter to purchase. END COMMENT.

¶7. (U) This cable was cleared by Ambassador Sobel.

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